

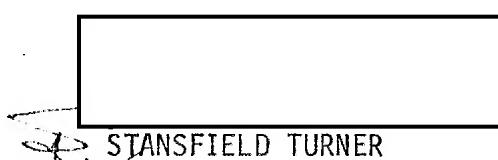
State Dept. review completed

2 MAY 1978

MEMORANDUM FOR: National Intelligence Officer, China
FROM: Director of Central Intelligence
SUBJECT: China

Attached is a piece from the INR daily publication. I think it may be time that I gave the President an oral wrap-up on trends in China. I would have in mind discussing the balance between Hua and Dung; the different theories as to domestic priorities; and the different theories on whether relations with us need to be accelerated or slowed down in accordance with the differing views on the degree of threat from the USSR.

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Attachment a/s

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cc: [redacted] Presidential
Briefing Coordinator

3. CHINESE LEADERSHIP DIFFERENCES--POSSIBLE FOREIGN POLICY IMPLICATIONS

Despite general agreement in Peking on a pragmatic foreign policy strategy of no compromise toward the USSR and better relations with the West, we think there are differences of emphasis among Chinese leaders. Our working hypothesis (based on admittedly inconclusive evidence) is that some leaders argue that China must stress rapid industrial and military modernization and more urgently press for closer ties with the US and its allies because of the Soviet threat. Other more cautious leaders lean toward a less activist approach. Differences over these issues, and other sources of rivalry, may in part explain Peking's apparent indecisiveness on certain foreign policy matters. Other observers do not believe that there is sufficient evidence of differences among China's leaders to support our hypothesis.

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Implementation of foreign policy clearly remains a sensitive area in China. Media treatment of such key issues as the severity of the Soviet threat and the state of US-USSR relations has been inconsistent. Moves to improve relations with the US and to increase military contacts with the West have been cautious and circumscribed. Finally--as noted in our analysis of Sino-Japanese relations on April 25--Peking's handling of the Senkaku incident seemed confused and indicative of internal division.

This measure of uncertainty in foreign affairs, we believe, may reflect differences in domestic priorities and perceptions of the international situation. Advocates of rapid industrial and military modernization, probably including Teng Hsiao-p'ing, appear to argue that the global power balance is rapidly shifting toward the USSR. They stress that there is a real possibility of a Soviet surprise attack and that time is short. They want a rapid improvement of ties with the West in order quickly to bolster China's economy and armed forces and to restrain Soviet pressure on China and moves by the West toward detente with the USSR.

To this end, these leaders want to avoid debilitating stalemates over such issues as Taiwan, the continental shelf, and the Sino-Japanese Peace and Friendship Treaty. We believe that they are likely to feel considerable pressure to settle these chronic obstacles to cooperation. When these

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issues cannot be resolved, they endeavor to separate them from other aspects of China's bilateral relations even though such action can erode China's leverage.

Other leaders, probably including Chairman Hua, seem to take a more sanguine view of the international situation and regard the Soviet threat as less immediately dangerous and the US as a more effective counterweight to the USSR. They do not see an urgent need for China to make more compromises on bilateral issues or to tarnish further its Third World, socialist image. They argue that China should follow a more gradual, indigenous approach toward strengthening its economy and defense capability. (CONFIDENTIAL)

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